



# Presentation to North Shore Probus Group

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# Outline

- Review last 30 years
  - Informs why we are where we are today
- Review Current Situation
- Review Next Five Years
  - Lessons from last 30 years
  - Emerging trends/issues



# News of the Day

## Financial Post, January 19, 1980

- Canada's forest products industry enters the 1980's with bulging pockets thanks to two extremely profitable years.
- The pulp and paper sector is selling everything it can.
- Lumber producers are feeling the pinch.
- U.S. housing starts have slipped dramatically.
- B.C. government providing subsidized mortgages at 9.75%.
- In 1978 three-quarters of B.C. interior lumber went to U.S.



# News of the Day (Cont'd.)

## Tri-City Herald, February 12, 1980

- B.C. Fighting Beetle.

## Leader Post, November 19, 1980

- Buy Back of Foreign Firms Picking Up

## Financial Post, February 21, 1981

- Officials from industry and provincial and federal governments signed a third 5 year overseas market development agreement.



# News of the Day (Cont'd.)

## **Montreal Gazette, July 21, 1981**

- 6,000 B.C. forest workers on strike.

## **Leader Post, December 17, 1981**

- U.S. Sawmillers which complain they can't compete with B.C. mills should clean their own house rather than ask their government to limit B.C. lumber sales to the U.S., the Chairman of COFI says.

## **Montreal Gazette, July 30, 1983**

- B.C. fires 527 forestry workers



# News of the Day (Cont'd.)

## Financial Post, June 23, 1984

- A still secret report... is blunt in its conclusions: the B.C. forest products industry has a gloomy outlook unless drastic changes are made.

## Ottawa Citizen, September 5, 1986

- B.C. forestry review aimed at heading off U.S. duties.

## North Island Gazette, February 27, 1991

- Forestry Study (FPC) to be prepared.



# News of the Day (Cont'd.)

## Toronto Star, June 30, 1997

- B.C. forecasting 22,000 new forestry jobs.



# News of the Day (Cont'd.)

## CBC

- The Softwood War Begins (October 8, 1982)
- The Lumber War, Round 2 (June 6, 1986)
- American Tariff Fractures Free Trade Talks (October 16, 1986)
- The Lumber Industry's Cozy Game (January 4, 1987)
- Canada Drops Its Export Tax (September 3, 1991)
- U.S. Reimposes Duty Measures (March 6, 1992)
- Five Years of Peace (April 2, 1996)
- Province Against Province, Mill Against Mill (August 19, 1996)



## News of the Day (Cont'd.)

- Negotiations End in Failure: Canada Admits Defeat (March 22, 2002)
- Run for the Border (May 22, 2002)
- Canada Claims Victory at WTO (July 26, 2002)
- B.C. Shifts Towards Market Based Forestry System (March 26, 2003)
- A Controversial Agreement (September 11, 2006)



## ISSUES

1. Background
2. Competitiveness
3. Timber Supply
4. Climate Change / Wood First / BioEnergy
5. COFI / Canada Wood Export Program
6. Canada/US Softwood Lumber Export Issues
7. Pulp & Paper Sector
8. Ministry of Natural Resource Operations



# BC FOREST INDUSTRY AND COMPETITIVENESS

## Background

- Recent downturn (2006-10) worst on record
  - Industry suffered significant cash losses
  - Government revenue remained positive
- BC interior remained relatively competitive region
- But still facing many challenges
  - Ongoing flat U.S. market
  - MPB and impact on future timber supply
  - Grade 4 Arbitration under SLA
  - Increased global competition
  - Dollar at par
- Offshore sales provide significant support and have propped up N.A. lumber prices.
- Ministry of Forests Competitiveness agenda commenced under Minister Bell must be maintained.
  - Ongoing policy and operational reform
  - Clarity required around MNRO



# COMPETITIVENESS SOFTWOOD LUMBER

CANADIAN MILL ECONOMICS		BC Int	ON	PQ	Source
<b>REVENUE</b>					
Benchmark Western KD SPF 2x4 2&Btr - Price (\$US/Mfbm f.o.b.)		\$320.00			RL
Benchmark Eastern KD SPF 2x4 Std&Btr - Price (\$US/Mfbm del GL)			\$395.00	\$395.00	RL
Mix Adjustment		0.90	0.85	0.80	Industry
Cdn Mill Gross Sales Price (\$US/Mfbm) (incl. tax and freight)		\$348.00	\$335.75	\$316.00	
Export Tax Rate (on price net of tax)		15%	15%	15%	SLA
Export Tax (\$US/Mfbm)		\$37.57	\$37.92	\$36.00	
Freight (\$US/Mfbm)		\$60.00	\$45.00	\$40.00	Industry
US/Canada Exchange Rate			1.01		BoC
Cdn Mill Net Sales Price (\$Cdn/Mfbm) (net of tax and freight)		\$247.96	\$250.32	\$237.62	
Chips and Other Revenue (\$Cdn/Mfbm)		\$50.00	\$85.00	\$110.00	WM 2008
<b>Total Revenue Cdn Mill (\$Cdn/Mfbm)</b>		<b>\$297.96</b>	<b>\$335.32</b>	<b>\$347.62</b>	
<b>COSTS</b>					
Cash Manufacturing Costs (\$Cdn/Mfbm)		\$85.00	\$120.00	\$120.00	WM 2008
Admin Costs (\$Cdn/Mfbm)		\$10.00	\$20.00	\$25.00	WM 2008
Fibre Costs (\$Cdn/m3 - \$Cdn/Mfbm)					
Logging Costs (\$Cdn/m3)		\$30	\$30	\$30	WM 2008
Stumpage (incl. silviculture) (\$Cdn/m3)		\$5.75	\$9.40	\$8.50	Q Ind
LRF		270	225	230	WM 2008
Wood Costs (\$Cdn/Mfbm)		\$132.41	\$175.11	\$167.39	
<b>Total Costs Cdn Mill (\$Cdn/Mfbm)</b>		<b>\$227.41</b>	<b>\$315.11</b>	<b>\$312.39</b>	
<b>CASH EARNINGS</b>					
Industry		\$70.55	\$20.21	\$35.23	
Government		\$43.67	\$79.33	\$72.60	



# COMPETITIVENESS

## History of BC Interior Mill Economics

DATE	Lumber	FX US/\$Cdn	Tax Rate	Mfg Costs \$Cdn/Mfbm	Admin Costs \$Cdn/Mfbm	Logging \$Cdn/m3	Stumpage Rate \$Cdn/m3	Industry Cash Position \$Cdn/Mfbm	Gov't Revenues \$Cdn/Mfbm
	Price \$US/Mfbm								
Nov-07	\$240	1.00	15%	\$105	\$20	\$35	\$10	-\$39.20	\$66.39
Feb-08	\$195	1.00	15%	\$105	\$20	\$35	\$9	-\$73.07	\$55.26
Jul-08	\$240	1.00	15%	\$105	\$20	\$35	\$6	-\$25.16	\$52.36
Nov-08	\$155	0.80	15%	\$90	\$13	\$35	\$5	-\$44.48	\$43.45
Jan-09	\$148	0.80	15%	\$90	\$13	\$35	\$5	-\$52.08	\$42.31
Aug-09	\$200	0.90	15%	\$90	\$10	\$35	\$9	-\$33.77	\$44.49
Oct-09	\$200	0.95	15%	\$90	\$10	\$35	\$9	-\$40.65	\$43.04
Feb-10	\$250	0.95	15%	\$85	\$10	\$30	\$7	\$23.50	\$42.42
Jun-10	\$245	0.95	10%	\$85	\$10	\$30	\$7	\$28.68	\$32.50
Sep-10	\$225	0.95	15%	\$85	\$10	\$30	\$6	\$6.10	\$36.14
Oct-10	\$255	0.98	15%	\$85	\$10	\$30	\$7	\$23.45	\$39.80
Jan-11	\$320	1.01	15%	\$85	\$10	\$30	\$6	\$70.55	\$43.67

### Notes

Nov-07 to Jul-08 - average mill performance; Nov-08 to May-10 - top quartile mill performance

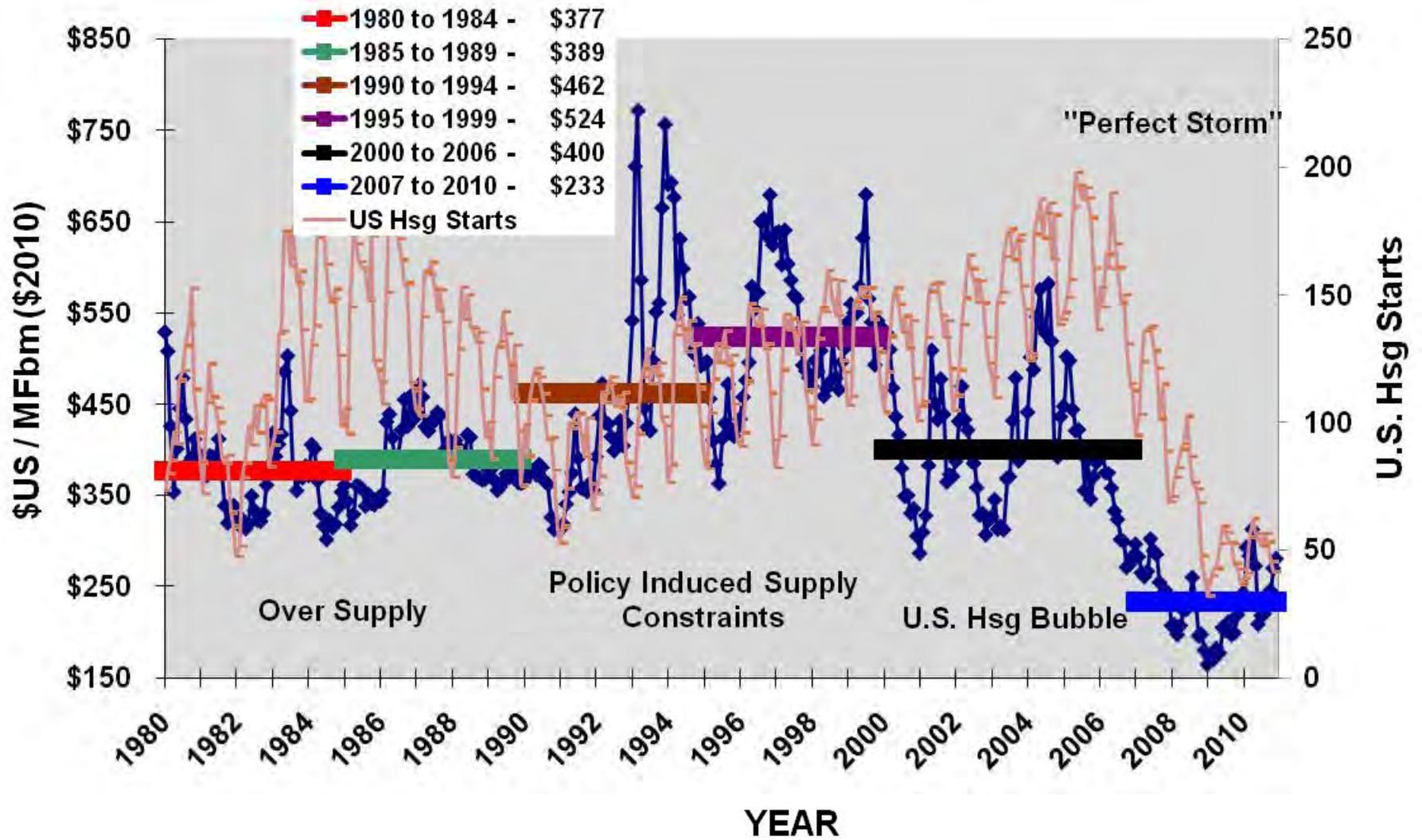
Aug-09 to Sep-10 stumpage includes road costs and silviculture (which are excluded from gov't revenues)

## Sensitivity of BC Interior Mill Economics to increase of

10 \$US in lumber price	\$8.61	\$0.86
1 cent in FX	-\$2.50	-\$0.32
1% in tax rate	-\$2.24	\$2.24
1 \$Cdn in stumpage rate	-\$3.70	\$3.70



## Inflation Adjusted W-SPF KD 2x4 Prices: 1980 to date





# TIMBER SUPPLY

## Opportunities

- Adequate supply of available and affordable timber to support a prosperous forest sector:
  - Adequate: Maximum forested land-base contributing to the AAC
    - Both THLB & non-THLB important
  - Available: Appropriate priority applied to other value constraints
    - Existing Land Use Plan balance & benefit-cost based
  - Affordable: Public policy cost of delivered fibre competitive with other jurisdictions
    - Both stumpage and operational costs of public policy

## Priorities

- Short/medium term threats:
  - Large scale damage impacts (insect, fire, wind, etc)
  - Challenge of new tenure holders ability to perform
  - Government re-organization (MNRO)
- Medium/long term threats:
  - Increasing pressure from other resource values
  - Declining recognition of approved LUPlans
  - Declining use of benefit-cost analysis in land management decisions
  - Erosion of replaceable tenure value and security
- Overall Need: Integrated B/C analysis tool to support decisions



# CLIMATE CHANGE/WOOD FIRST/ENERGY

## **Opportunities**

- Economic opportunities exist with high carbon prices but export-orientation requires global (or at least NA) price
  - Increased demand for wood as building material
  - Carbon offset credits to support more healthy, growing forests
  - More value from forest: bioenergy and eventually advanced biochemical products
- Leverage on first class leadership in support of wood culture

## **Priorities**

- Workable cap and trade regime that recognizes forest sector achievements and opportunities
- Tackle Climate Change-Use Wood/Wood First policies here and in external markets
- Recognition of substitution value - replace fossil fuels, bioproducts (longer term)
- Implement Clean Energy Act to enhance our relative competitiveness
- Avoid collateral damage to existing forest industry

## **Overall Need**

- Must keep focus on overall goal of relative competitiveness : Economic model of bioenergy required



# CANADA WOOD/ MARKET DIVERSIFICATION

## Opportunities

- In 1970's & '80's BC's offshore sales = 25% of production
- Broad customer base = healthy pricing, reduced market risk and right product to right customer
- In last decade offshore sales fell to as little as 5% of total. Industry fortunes entirely dependent on the American marketplace
- Industry profits and future hostage to the U.S. credit and housing bubble
- Restore options and industry's global reach
- Create new markets now in China/Korea/Japan
- Keep mills running and maintain strong offshore order files firming/stabilizing USA pricing
- Turn liabilities like MPB wood into an asset by feeding burgeoning Chinese demand
- Generate sustainable demand in China via building uses for structural lumber and exploit societal trends in Japan and Korea including elderly care facilities and creation of lower density satellite cities

## Priorities

- Low grades well accepted in reman segment
- Expanding wood building in China: codes, institutional biases, skills/capacity and quality deficiencies must be addressed
- China has become our second largest customer. But our position is price dependent. Sustainability will be built on the back of building demand
- No single Asian market maximizes sales return. We need to push ahead in all three target countries to achieve true diversification

## Overall Need

- Long-term commitment needed from both prov/fed governments. CWEP facing expiration Mar 31, 2011



# CANADA/US SOFTWOOD LUMBER ISSUES

## **Opportunities**

- Softwood Lumber Agreement (2006-13)
- Two Year extension if mutual agreement
- Agreement working well for both sides
- BC industry (and rest of Canada) prefers extension
- Not too early to commence discussions
- BC Interior also facing arbitration on Grade 4 logs (MPB attacked lumber at \$.25/m<sup>3</sup> stumpage)
- U.S. industry looking for \$400 million plus in damages
- BC has solid counter arguments
- MOFML/BCLTC working in close cooperation

## **Priorities**

- Secure agreement extension
- Aggressive arbitration defense

## **Overall Need**

- File needs ongoing attention of Premier/Minister



## BC PULP AND PAPER SECTOR

### **Background**

- 18 mills across B.C.
- 10,000 high paying jobs
- Hi-tech industry
- Reduced carbon emissions by 62% since 1990
- N.A.'s largest bioenergy producer
- Faces global competition
- Mills in other jurisdictions have cost advantages
- Local mills very sensitive to government imposed costs
  - Climate Policy
  - Carbon Tax
  - Property Tax
- Sawmills and pulp and paper mills feed off each other



## BC PULP AND PAPER SECTOR

### **Opportunities**

- Sector transformation underway
- Federal Green Transformation Program (\$1 billion) catalyst for re-investment
- Leader in carbon reduction
- Incremental bioenergy production

### **Priorities**

- Climate action must have economic lens applied
- Bioenergy policy must not favor new entrants at expense of existing industry
- Energy policy needs to be consistently applied
- Rationalization of municipal tax issue
- Improve social competitiveness

### **Overall Need**

- Pro-competitive sector strategy



## MINISTRY OF NATURAL RESOURCE OPS.

### **Opportunities**

- True one stop shopping approval process
- Reduction of silo approach across “dirt” Ministries
- Rationalization of government resources
- Reduced industry operational costs

### **Priorities**

- Establish set of benchmarks to evaluate success/failure
- Reassess after 6 months
- Establish industry / sector Advisory Groups
- Ensure no disconnect between Policy and Operations

### **Overall Need**

- Must show incremental value within 12 months, or ?



## SUMMARY

- Forest industry began a new era in 2006 mainly characterized by:
  - SLA October 2006
  - Slide in U.S. housing starts
  - Fall in lumber consumption
  - Record low lumber prices
  - Negative cash returns
  - Dollar appreciation
- Modest recovery assisted by increasing offshore sales and Green Transformation Program
- Next 5 years are critical
  - Remaining mills highly efficient
  - Canadian & B.C. lumber supply gets tighter
  - U.S. demand picks up
  - Offshore demand sustained
  - Lumber prices increase
  - Wood supported by Climate Agenda
  - Ongoing cost improvement and re-investment in pulp and paper sector



## BOTTOM LINE

- B.C. needs to “rebuild” for the future
  - Get Policy Right
    - Timber Pricing/Supply
    - Climate Change
    - Energy/Bioenergy Policy
  - Achieve full lumber market diversification
  - Get Tax / Regulatory Structure right
  - Get Government Operations right (MNRO)
  - Win HST Referendum